

MONTHLY OPERATING REPORT

CHAPTER 11

CASE NAME: FRANCHISE SERVICES OF NORTH AMERICA, INC.CASE NUMBER: 17-02316-EE For Period: June 26, 2017 to July 31, 2017

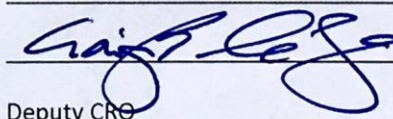
THIS REPORT IS DUE 15 DAYS AFTER THE END OF THE MONTH. The debtor must attach each of the following forms unless the United States Trustee has waived the requirement in writing. File with the court and submit a paper copy to the UST with an original signature.

Form Attached	Previously Waived	REQUIRED REPORTS / DOCUMENTS
(mark only one – attached or waived)		
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Comparative Balance Sheet (FORM 2-B)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Profit and Loss Statement (FORM 2-C)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Cash Receipts and Disbursements Statement (FORM 2-D)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Supporting Schedules (FORM 2-E)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Narrative (FORM 2-F)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Copies of Bank Statement(s) and Reconciliations of Book Balance for all Account(s)

I declare under penalty of perjury that the following Monthly Operating report and any attachment thereto, are true and correct to the best of my knowledge and belief.

Executed on: August 15, 2017Debtor(s)* FRANCHISE SERVICES OF NORTH AMERICA, INC.

By**



Position:

Deputy CFOName of Preparer: Craig B. DeLanoTelephone No. of Preparer: 512-284-1025

* both debtors must sign if a joint petition

** for corporate or partnership debtor

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE** COMPARATIVE BALANCE SHEET

	Filing Date	Month 1	Month 2
	23-Jun-17	31-Jul-17	
ASSETS			
Cash	\$ 6,800	\$ 6,475	
Prepaid expenses	17,343	17,027	
Deferred income taxes	2,552,236	2,552,236	
Deferred income taxes-valuation allowance	(2,552,236)	(2,552,236)	
Due from/to Practicar	1,026	1,026	
Due from/to U-Save	2,288,311	2,260,293	
Investments	19,961,478	19,961,478	
Total Assets	22,274,958	22,246,298	

If assets are carried at historical cost on debtor's accounting records and debtor elects to show them as such on the monthly reports, not the changes above and include remarks on FORM 2-F (Narrative). All subsequent reports must then carry these assets at that value. Do not use historical cost one month and fair market value the next.

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE**

COMPARATIVE BALANCE SHEET

	Filing Date	Month 1	Month 2
	23-Jun-17	31-Jul-17	
LIABILITIES & EQUITY			
Accounts Payable	1,167,043	1,392,685	
Accrued liabilities	2,963,994	2,972,969	
Total Liabilities	4,131,037	4,365,654	
Equity			
Common shares	28,002,883	28,002,883	
Preferred shares - Series A	32,085,685	32,085,685	
Contributed surplus	516,067	516,067	
Retained Earnings	(41,917,128)	(41,917,128)	
Net income (loss)	(779,568)	(1,042,844)	
Accumulated other comprehensive income	235,981	235,981	
Total Equity	18,143,920	17,880,644	
Total Liabilities & Equity	22,274,958	\$ 22,246,298	

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE** PROFIT AND LOSS STATEMENT

	For the Month Ending	
	<i>23-Jun-17</i>	<i>31-Jul-17</i>
	ACTUAL	ACTUAL
<i>Revenue</i>		
Management fees	\$ -	\$ -
Miscellaneous revenue	-	-
<i>Total Revenue</i>	-	-
<i>Expenses</i>		
Professional fees:		
Audit and accounting	3,975	3,975
Legal	15,467	-
Transfer agent	2,394	1,008
Exchange and commissions	-	-
Corp communication & AGM	-	-
Board meetings	-	-
Insurance	8,198	8,198
<i>Total professional fees</i>	<i>30,034</i>	<i>13,182</i>
Office and communication	35	136
Bank charges	-	-
Interest expense	-	-
Taxes-other	2,600	5,000
Bankruptcy expenses	165,691	244,959
(Gain) or Loss on foreign exchange	-	-
<i>Total expenses</i>	<i>198,360</i>	<i>263,276</i>
<i>Income Before Depreciation or Taxes</i>	<i>(198,360)</i>	<i>(263,276)</i>
<u>Depreciation or Amortization</u>	-	-
<u>Extraordinary Expenses *</u>	-	-
<u>Income tax expense /(benefit)</u>	-	-
<i>Net Income (Loss)</i>	<i>(198,360)</i>	<i>(263,276)</i>

* Requires EXPLANATION IN narrative (Form 2-F)

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****CASH RECEIPTS AND DISBURSEMENTS STATEMENT**For Period June 26 to July 31, 2017**CASH RECONCILIATION**

1. Beginning Cash Balance (Ending Cash Balance from last month's report)	<u>\$ 6,800.00</u>
2. Cash Receipts (total Cash Receipts from page 2 of all FORM 2-D's)	<u>\$ 124,715.18</u>
3. Cash Disbursements (total Cash Disbursements from page 3 of all FORM 2-D's)	<u>\$ 125,040.18</u>
4. Net Cash Flow	<u>\$ (325.00)</u>
5. Ending Cash Balance (to FORM 2-B)	<u>\$ 6,475.00</u>

CASH SUMMARY - ENDING BALANCE

	<u>Amount*</u>	<u>Financial Institution</u>
1. Real Estate Account	n/a	
2. Trust Account	n/a	
3. Operating and/or Personal Account	<u>\$ 6,475.00</u>	Regions Bank
4. Payroll Account	n/a	
5. Tax Account	n/a	
6. Other Accounts (Specify checking or savings)	n/a	
7. Cash Collateral Account	n/a	
8. Petty Cash	n/a	
TOTAL (must agree with line 5 above)	<u>\$ 6,475.00</u>	

*These amounts should be equal to the previous month's balance for the account plus this month's receipts less this month's disbursements.

ADJUSTED CASH DISBURSEMENTS

Cash disbursements on Line 3 above less

Inter-account transfers & UST fees paid \$ 124,715.18

* NOTE: This amount should be used to
Determine UST quarterly fees due and agree
With Form 2-D, page 2 of 4.

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****QUARTERLY FEE SUMMARY**MONTH ENDED: **July 31, 2017**

THIS REPORT IS DUE 15 DAYS AFTER THE END OF THE MONTH. The debtor must attach each of the following forms unless the United States Trustee has waived the requirement in writing. File with the court and submit a paper copy to the UST with an original

Payment Date	Cash Disbursements *	Quarterly Fee Due	Check No.	Date
January				
February				
March				
Total				
1 st Quarter	n/a	\$ _____	_____	_____
April				
May				
June	\$ 0.00			
Total				
2 nd Quarter	\$ 0.00	\$ 325	1200	7/24/2017
July				
August				
September				
Total				
3 rd Quarter	\$ _____	\$ _____	_____	_____
October				
November				
December				
Total				
4 th Quarter	\$ _____	\$ _____	_____	_____

DISBURSEMENT CATEGORY QUARTERLY FEE DUE

\$0.00 to \$14,999.99	\$325
\$15,000.00 to \$74,999.99	\$650
\$75,000.00 to \$149,999.99	\$975
\$150,000.00 to \$224,999.99	\$1,625
\$225,000.00 to \$299,999.99	\$1,950
\$300,000.00 to \$999,999.99	\$4,875
\$1,000,000.00 to \$1,999,999.99	\$6,500
\$2,000,000.00 to \$2,999,999.99	\$9,750
\$3,000,000.00 to \$4,999,999.99	\$10,400
\$5,000,000.00 to \$14,999,999.99	\$13,000
\$15,000,000.00 to \$29,999,999.99	\$20,000
\$30,000,000.00 or more	\$30,000

Note that a minimum payment of \$325 is due each quarter even if no disbursements are made in the case during the period.

Note: should agree with "adjusted cash disbursements" at bottom of Form 2-D, Page 1 of 4. Disbursements are net transfers to other debtor in possession bank accounts and net payments of prior period quarterly fees.

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

(This form should be completed for each type of account listed on page 1 of FORM 2-D that the debtor maintained during the month.)

For Period June 26 to July 31, 2017Account Name: Commercial Analyzed Checking Account Number: 0173329495**CASH RECEIPTS JOURNAL**

(attach additional sheets as necessary)

<u>Date</u>	<u>Description (Source)</u>	<u>Amount</u>
7/24	Transfer from U-Save	96,832.54
7/25	Transfer from U-Save	27,882.64

Total Cash Receipts \$ 124,715.18

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****CASH RECEIPTS AND DISBURSEMENTS STATEMENT**

(This form should be completed for each type of account listed on page 1 of FORM 2-D that the debtor maintained during the month.)

For Period June 26 to July 31, 2017Account Name: Commercial Analyzed Checking Account Number: 0173329495

CASH DISBURSEMENTS JOURNAL
(attach additional sheets as necessary)

<u>Date</u>	<u>Check No.</u>	<u>Payee</u>	<u>Description (Purpose)*</u>	<u>Amount</u>
7/24	1200	UST	2 nd Quarter Fees	\$ 325.00
7/25	Wire Transfer	Equity Partners	Broker Marketing Expenses	20,000.00
7/25	Wire Transfer	carrentals.com	Post-petition reservation fees	25,932.03
7/25	Wire Transfer	Expedia	Post-petition reservation fees	70,900.51
7/28	1201	US Premium Finance	Installment Payment of D&O, EPLI Ins.	7,882.64

Total Cash Disbursements \$ 125,040.18

*Identify any payments to professionals, owners, partners, shareholders, officers, directors or any insiders and all adequate protection payments ordered by the court with an asterisk or highlighting. Any payments made as a result of a court order, should indicate the order date.

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****SUPPORTING SCHEDULES**For Period June 26 to July 31, 2017

POST-PETITION ACCOUNTS PAYABLE AGING REPORT

TYPE	INCURRED	DUE	0-30	31-60	61-90	OVER 90
FITW	n/a		\$ -	\$ -	\$ -	\$ -
FICA	n/a					
FUTA	n/a					
SITW	n/a					
SUTA	n/a					
OTHER TAX	n/a					
TRADE PAYABLES						
Computershare	July-17	8/8/2017	1,008.33			
Osler, Hoskin & Harcourt	July-17	7/31/2017	382.68			
OTHER						
Butler Snow	July-17	8/9/2017	133,604.24			
MeadowLark Advisors	July-17	8/9/2017	125,539.16			
TOTALS			\$ 260,534.41	\$ -	\$ -	\$ -

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****SUPPORTING SCHEDULES**For Period June 26 to July 31, 2017

POST-PETITION ACCOUNTS RECEIVABLE AGING REPORT

TYPE	INCURRED	DUE	0-30	31-60	61-90	OVER 90
None						
TOTALS			\$ -	\$ -	\$ -	\$ -

CASE NAME: **FRANCHISE SERVICES OF NORTH AMERICA, INC.**CASE NUMBER: **17-02316-EE****SUPPORTING SCHEDULES**For Period June 26 to July 31, 2017**INSURANCE SCHEDULE**

<u>Type</u>	<u>Carrier / Agent</u>	<u>Coverage (\$)</u>	<u>Date of Expiration</u>	<u>Premium Paid</u>
Workers' Compensation	n/a			
General Liability	Sonoran National Ins. Group	\$2MM	2/16/2018	Yes
Property (Fire, Theft)	n/a			
Vehicle	Starstone National Insurance Co.	\$1MM	3/1/2018	Yes
Other (list):				
• EPLI	Westchester Fire Ins. Co.	\$1MM	11/30/2017	Yes
• D&O	Executive Risk Indemnity Inc. / Chubb	\$1MM	11/30/2017	Yes
•				
•				
•				

- (1) Attach copy of certificate of insurance or declaration page of policy for any coverage renewed or replaced during the current reporting month.
- (2) For the premium paid column enter "yes" if payment of premium is current or "no" if premium payment is delinquent. If "no", explain on Form 2-F, Narrative.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF MISSISSIPPI**

In re:

**FRANCHISE SERVICES OF NORTH
AMERICA INC.**

Debtor

CASE NO. 17-02316-EE
Chapter 11

NARRATIVE STATEMENT

(For Period June 26, 2017 to July 31, 2017)

Please provide a brief description of the significant business and legal action by the debtor, its creditors, or the court during the reporting period. Comments should include any change in bank accounts, explanation of extraordinary expenses, and purpose of any new post-petition financing. Comments should also include debtor's efforts during the month to rehabilitate the business and to develop a plan.

Franchise Services of North America, Inc. the Debtor and debtor-in-possession herein (the “**Debtor**” or “**FSNA**”) filed its voluntary petition under Chapter 11 of the Bankruptcy Code on June 26, 2017 (the “**Petition Date**”), in the United States Bankruptcy Court for the Southern District of Mississippi (the “**Bankruptcy Court**”). The Debtor has continued to operate and manage its business pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed, and no official committee of unsecured creditors has been appointed.

FSNA is a corporation organized and existing under the laws of Delaware, with its corporate headquarters and principal place of business located at 1052 Highland Colony Parkway, Suite 204, Ridgeland, Mississippi 39157. FSNA presently owns 100% of the stock of U-Save Holdings, Inc. (“*U-Save Holdings*”). U-Save Holdings, in turn, owns 100% of the stock of U-Save Auto Rental of America, Inc. (“*U-Save Auto*”), which in turn owns 100% of the stock of Auto Rental Resource Center, Inc., U-Save Car Sales, Inc., and Peakstone Financial Services, Inc. (the “*Subsidiaries*”).¹

The Debtors filed certain emergency motions and applications on the day after the Petition Date (collectively, the “***First Day Motions***”), and these First Day Motions sought relief aimed at preserving the going concern value of the bankruptcy estates and minimizing the adverse effects of the chapter 11 filing on the Debtors’ businesses. The First Day Motions related to operational, as well as financial and financing issues. The Court entered several orders with respect to the First Day Motions, including:

(a) *Interim Order Granting Emergency Motion of the Debtor for Authorization to Maintain Existing Bank Account* [Dkt. # 49];

¹ U-Save Auto previously owned 100% of the stock of three other entities which have been dissolved within the past three years: Practical Rent-a-Car System, Inc. (dissolved effective May 3, 2017), Hollywood Call Center, Inc. (dissolved effective April 7, 2015), and U-Save Leasing, Inc. (dissolved effective April 15, 2015).

(b) *Interim Order (I) Authorizing the Debtor to Obtain Post-Petition Financing on a Secured and Super-Priority Basis Pursuant to 11 U.S.C. §§ 105, 364(c)(1), 364(c)(2), 364(c)(3) and 507(b); and (II) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001 and Pursuant to Miss. Bankr. L.R. 5005-1 and Miss. Bankr. L.R. 9013-1 [Dkt. # 50]; and*

(c) *Interim Order Approving Motion of the Debtor for Authority to Pay Post-Petition Installments on Insurance Policies Necessary to Maintain Insurance Coverage [Dkt. # 52].*

The Court's granting these First Day Motions: (i) enabled the Debtor to obtain the necessary funds to continue operations; (ii) minimized the disruptive effect of the Bankruptcy Case; and (iii) permitted a court-sanctioned sales process for certain assets of the Debtor to be undertaken.

Subsequently, the Court entered Final Orders on these First Day Motions as follows:

(a) *Final Order Granting Emergency Motion of the Debtor for Authorization to Maintain Existing Bank Account [Dkt. # 79];*

(b) *Final Order (I) Authorizing the Debtor to Obtain Post-Petition Financing on a Secured and Super-Priority Basis Pursuant to 11 U.S.C. §§ 105, 364(c)(1), 364(c)(2), 364(c)(3) and 507(b); and (II) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001 and Pursuant to Miss. Bankr. L.R. 5005-1 and Miss. Bankr. L.R. 9013-1 [Dkt. # 94]; and*

(c) *Final Order Approving Motion of the Debtor for Authority to Pay Post-Petition Installments on Insurance Policies Necessary to Maintain Insurance Coverage [Dkt. # 81].*

With respect to securing the services of professionals needed for the Bankruptcy Cases, the Debtor filed the following pleadings:

(a) *Application of the Debtor Pursuant to 11 U.S.C. §§ 105(a) and 363(b) to (I) Retain Meadowlark Advisors LLC to Provide the Debtor with a Chief Restructuring Officer, and (II) Designate Jonathan J. Nash as Chief Restructuring Officer for the Debtor Nunc Pro Tunc to June 26, 2017 [Dkt. # 15];*

(b) *Application of Debtor to Employ Butler Snow LLP as its Bankruptcy Counsel and Disclosure of Compensation [Dkt. # 40]; and*

(c) *Application of the Debtor for Authority to Retain and Employ Equity Partners HG LLC [Dkt. # 46].*

The Court granted each of these Applications, as follows:

(a) *Final Order Authorizing the Debtor, Pursuant to 11 U.S.C. §§ 105(a) and 363(b), to (I) Retain Meadowlark Advisors LLC to Provide the Debtor with a Chief Restructuring Officer, and (II) Designate Jonathan J. Nash as Chief Restructuring Officer for the Debtor Nunc Pro Tunc to June 26, 2017 [Dkt. # 83];*

(b) *Order Granting Application of Debtor to Employ Butler Snow LLP as its Bankruptcy Counsel and Disclosure of Compensation* [Dkt. # 86]; and

(c) *Order Granting Debtor's Application to Employ Equity Partners HG LLC* [Dkt. # 89].

The approval of these Applications permitted the Debtor to retain competent restructuring professionals to oversee the administration of the bankruptcy case, and also to begin a court-supervised, structured sales process for certain assets of the Debtor.

As reported to the Court at the final hearing on the First Day Motions, the Board of Directors of the Debtor adopted procedures and protocol to identify and address conflicts of interests for directors in terms of: (i) who will receive notice of a meeting topic; (ii) who may participate in a meeting; and (iii) who may vote on a topic. These procedures and protocols permit the Board to function as an independent Board and to have disinterested directors acting on corporate matters.

Financially, in the Final DIP Order, the Court approved the Debtor's obtaining a credit facility, the "***DIP Facility***") in which the Debtor was authorized to borrow up to \$250,000.00, subject to a possible subsequent funding, at the discretion of the DIP Lender of an additional \$250,000.00 under the DIP Facility for the purposes of funding the operations of the Debtor's business, paying certain transaction fees and expenses, and other costs and expenses of administration of the Bankruptcy Case, all subject to, and in accordance with, the DIP Loan Documents and the Approved Budget, with the understanding that the Debtor will use its best efforts to have all such expenses paid by the Debtor's subsidiaries to the extent practicable.

Although the Debtor's subsidiary operations had a slight reduction in force just before the Petition Date, the Debtor and its subsidiary operations have largely weather the transition into the chapter 11 case. To date, no significant operational issues have arisen.

One of the First Day Motions filed by the Debtor was a *Motion for 2004 Examination of Bruce G. Donaldson* [Dkt. # 16]. The Macquarie Parties filed a Motion to Continue Hearing On the Motion for Examination of Bruce G. Donaldson [Dkt. # 29], which was granted by the Court in its *Order Granting Motion of Macquarie Parties (Macquarie Capital (USA), Inc., Michael John Silverton and Daniel Raymond Boland) for Continuance of Expedited Hearing on Motion of the Debtor for Order Directing the Examination of Bruce G. Donaldson Pursuant to Federal Rule of Bankruptcy Procedure 2004* [Dkt. # 61] in which the Court continued the Motion for Examination pending further Order of the Court. On July 13, 2017, the Court entered its *Order Setting Hearing and Response Deadline on Motion of Debtor for Order Directing the Examination of Bruce G. Donaldson Pursuant to Bankruptcy Rule 2004* [Dkt. # 73] in which it set the Motion for Examination for hearing on August 30-31, 2017.

With respect to the sales process, Equity Partners, working with the CRO, established a virtual data room for the sales process. Equity Partners, working with the Debtor's professionals, finalized confidentiality and non-disclosure agreements ("*CNDAs*") to be executed by potential purchasers. As of the end of July 2017, Equity Partners had received back six executed CNDAs and each of those prospects had been given access to the virtual data room.

[As of August 14, 2017, there were 15 prospects which had executed CNDAs and had been given access to the virtual data room.] Equity Partners has continued to follow up with each of these prospects answering questions and providing them with any additional information requested.

Equity Partners also developed a prospect category list of companies based on their Standard Industrial Classification (“SIC”) Code, size, and/or because Equity Partners was aware they may be interested in this type of investment. Equity Partners selected 1,181 companies to receive a mailout describing this investment opportunity, and also selected 1352 target prospects from its internal prospect database consisting of PE firms, family offices, individual investors, and prospects which had looked at similar opportunities in the past. These target prospects received email with material describing this investment opportunity. Finally, Equity Partners selected approximately 25 prospects for its outreach call program.

On July 26, 2017, the Debtor filed its *Periodic Report Regarding Value, Operations and Profitability of Entities in Which the Estate of Franchise Services of North America, Inc. Holds a Substantial or Controlling Interest* [Dkt. # 095].

On July 31, 2017, the Debtor accepted the Stalking Horse Bid of Trace Residential Properties, LLC for the assets to be sold. Subsequently, on July 31, 2017, the Debtor filed its *Motion for an Order: (A) To Approve Sale Procedures in Connection with the Sale of All of the Debtor’s Stock in U-Save Holdings, Inc.; (B) Authorizing the Sale of Assets; (C) Scheduling an Auction to Conduct the Sale; (D) Scheduling a Sale Hearing for Approval of the Sale and Approving Notice Thereof; (E) Approving Notice of Certain Dates, Times, and Places and Proposed Notice Procedures; and (F) Granting Related Relief* (the “**Sale Procedures and Sale Motion**”) in which the sales procedures were set forth. The key dates proposed for the sale process are as follows:

Stalking Horse Bid Deadline	August 31, 2017
Final Bid Deadline	September 20, 2017
Auction	September 26, 2017
Sale Hearing	September 27, 2017

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